

**FRANCHISE TAX BOARD
Fiscal Year 2006/07**

**Budget Change Proposal
Processing Equipment Replacement**

**BCP No. 3
Date: July 25, 2005**

A. Nature of Request

This proposal requests funding of \$1.882 million to replace business equipment that has reached the end of its life expectancy: 1) The Multi-Line Optical Character Reader (presort bar coding machine) allows FTB to receive a discounted postage rate that results in \$1.5 million in annual savings; and 2) Three Two-Up mail inserters that read, fold, cut and insert the majority of the department's notices.

B. Background/History

The Franchise Tax Board processed nearly 14 million outgoing letters in FY 2003/04. In FY 2004/05, the demand for outgoing letters increased by over 28%. The demand for processing outgoing mail is projected to increase by an average of 6% over the next two years. To keep up with this ongoing demand, it has become increasingly imperative that our current equipment, which has reached the end of its life, be replaced. Without immediate machine replacement, the limitations imposed by these machines will negatively impact mailroom processes, costs and efficiencies.

Multi-Line Optical Character Reader (MLOCR)

The existing MLOCR was purchased in 1997 and has a 7-year life expectancy. Prior to FTB purchasing the MLOCR in 1997, an outside vendor was contracted to sort inserted mail and charged both a flat handling fee and a "per piece" fee. To ensure confidentiality of taxpayer information, the vendor and anyone else handling the mail was required to be bonded. An analysis concluded that acquiring a MLOCR, rather than continuing to contract with a outside vendor for mail processing, would be beneficial to the department in the following ways:

- It would better support the department's demand for outgoing mail
- It would provide a secure environment for taxpayer information
- It would supply the department with significant savings in postage costs

Use of the MLOCR allows the department to apply a discount postage rate for outgoing mail. Resulting savings is approximately \$.08 per piece of mail for an overall yearly cost savings of over \$1.5 million. (See attachment A).

Two-Up Inserters

In addition to the MLOCR, the Two-Up Inserters are an integral part of the department's mailroom operations as their usability greatly affects our ability to timely process outgoing mail. Large portions of the department's outgoing mail include various payment notices sent to taxpayers who owe money to the department. The majority of notices mailed to taxpayers are printed in a computer generated, two-up format (two side-by-side documents on one 18 inch wide piece of paper). Two-Up Inserters are the only machines capable of cutting, folding and inserting documents of this format into envelopes, which are then sorted (by zip code) by the MLOCR, and mailed. The processing of these notices in a timely fashion is crucial to the department's ability to collect monies and resolve taxpayer accounts. Any deviation in the billing cycle due to equipment inefficiency and/or malfunction can greatly affect our ability to send notices to taxpayers, which in turn affects our ability to receive prompt payment.

The existing Two-Up mail inserters were also purchased in 1997, and reached the end of their life expectancy and technology limitations in FY 2004/05. The current Two-Up Inserters are experiencing malfunctioning issues. The operating mechanisms are jamming and damaging taxpayer notices. As a result, mail delays and backlogs have occurred. With our increasing demands for outgoing mail, it is important that the inserter equipment be structurally and operationally sound to meet those demands.

C. State Level Considerations

The mission statement for the Franchise Tax Board reads in part: *The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue.* Having a mechanically and technologically sound MLOCR and Inserters would allow FTB to continue to apply accurate address information to its outgoing mail, as well as provide for outgoing mail to be distributed in timely and cost efficient manner.

D. Facility/Capital Outlay Considerations

There is no impact to facilities or any capital outlay considerations as a result of the proposed equipment replacement.

E. Justification

This proposal would allow our department to properly support its Strategic Goal #4, "Deliver Efficient and High Quality Business Results". Replacement of both the MLOCR and Two-Up Inserters would ensure that the department continues to deliver efficient and high-quality business results with its outgoing mailroom operations, now that this equipment has reached the end of its life.

Replacement of the MLOCR would also allow the department to properly service increasing outgoing mail demand as well as to continue taking advantage of the current discount postage rate. The existing MLOCR is extremely outdated and is no longer being supported by the vendor after December 2005. Failure to replace it would most

likely result in full postage rates being applied to all outgoing mail. Applying the full postage rate to approximately 14 million outgoing letters would add approximately \$1.5 million to our overall current postage costs.

Replacement of the Two-Up Inserters would allow the department to properly service the ever-increasing demand for outgoing mail. The newer, state of the art equipment would not only allow the department to meet its current mail needs, but would also provide the proper capacity for future increased workload demands. The department is expecting the demand for outgoing mail to increase by 6% annually for the next two years.

F. Analysis of All Feasible Alternatives:

Alternative #1 - Augment FTB's budget by \$1.882 million for FY 2006/07 to replace the existing Two-Up Inserters and Multi-Line Optical Character Reader (MLOCR).

The cost to purchase the Inserters is \$1,500,000 and the cost to purchase the MLOCR is \$382,000. Immediate purchase of the equipment is necessary, as both the MLOCR and Two-Up Inserters have reached their life expectancy. As such, the department has experienced operational problems processing mail workloads in a timely fashion.

Alternative #2 - Replace the existing Two-Up Inserters and Multi-Line Optical Character Reader (MLOCR) and spread the cost of the new equipment over a number of years.

This alternative would involve the same equipment costs discussed in Alternative #1. However, as opposed to a one-time budget augmentation of \$1.882 million to purchase the equipment, the purchase of the new equipment would be financed with installment payments occurring over a number of years and would include a finance cost.

Alternative #3 – Maintain the current system. No additional funding required.

As noted earlier, this alternative would result in an approximate \$1.5 million increase in postage cost, at the point in which the MLOCR equipment no longer functions and FTB would be required to once again contract with a vendor. Also, by continuing to utilize the current equipment, the department will experience time delays in processing outgoing mail and delayed revenue receipts. Continuing to utilize the current equipment will also most likely result in new costs in terms of equipment repair.

G. Timetable

Purchase and installation of the new equipment to occur by July 1, 2006. As of that date, the vendor will no longer support the current equipment.

H. Recommendation

Alternative #1 is recommended. This alternative properly addresses the department's need to be at the forefront in the mailroom operations field and is the alternative with the

lowest overall costs. The processing of outgoing mail is a key component in the department's strategic goals of being a cost-efficient entity as well as being a fair and effective tax administrator. It also enables the department to better serve its customers in timely outgoing mail communications.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2006/07
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 3	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM various	ELEMENT various	COMPONENT	

TITLE OF PROPOSED CHANGE:

Processing Equipment Replacement

SUMMARY OF PROPOSED CHANGE:

This proposal requests funding of \$1.882 million to replace business equipment that has reached the end of its life expectancy: 1) The Multi-Line Optical Character Reader (presort bar coding machine) allows FTB to receive a discounted postage rate that results in \$1.5 million in annual savings; and 2) Three Two-Up mail inserters that read, fold, cut and insert the majority of the department's notices.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
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PREPARED BY: PROGRAM / PROJECT #	DATE	REVIEWED BY:	DATE
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

N/A

☐ YES
☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR ☐ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

BCP # 3	DATE	07/25/2005	Title of Proposed Change:			
			Processing Equipment Replacement			
PROGRAM	ELEMENT	COMPONENT				
Various	Various					
			<u>Personnel Years</u>			
			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	
Total Salaries & Wages a/			<u>.0</u>	<u>.0</u>	<u>.0</u>	<u>\$ 0</u>
Salary Savings			<u>.0</u>	<u>.0</u>	<u>.0</u>	<u>\$ 0</u>
Net Total Salaries and Wages			<u>.0</u>	<u>.0</u>	<u>.0</u>	<u>\$ 0</u>
Staff Benefits b/						<u>\$ 0</u>
Total Personal Services						<u>\$ 0</u>

Operating Expenses and Equipment

General Expenses	\$ 0	\$ 0	\$ 0
Printing	0	0	0
Communications	0	0	0
Postage	0	0	0
Travel-In-State	0	0	0
Travel Out-of-State	0	0	0
Training	0	0	0
Facilities Operations	0	0	0
Utilities	0	0	0
Cons & Prof Svs - Interdept'l	0	0	0
Cons & Prof Svs - External	0	0	0
Consolidated Data Center	0	0	0
California Health and Human Services Agency Data Center	()	()	()
Stephen P. Teale Data Center	()	()	()
Data Processing	0	0	0
Equipment /1	0	1,882,000	0
Other Items of Exp (Specify Below)	0	0	0
Total Operating Expense & Equipment	<u>\$ 0</u>	<u>\$ 1,882,000</u>	<u>\$ 0</u>

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

/1 Includes \$1.5 million for the purchase of Two-Up Inserters. Also includes \$382,000 for the purchase of a Multi-Line Optical Character Reader

	<u>Current Year</u>	<u>Budget Year</u>	<u>Budget Yr +1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	<u>\$ 0</u>	<u>\$ 1,882,000</u>	<u>\$ 0</u>
SPECIAL ITEMS OF EXPENSE d/			
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
PROGRAM ADMINISTRATION	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Distributed Admin

\$	0	\$	0	\$	0
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TOTAL STATE OPERATIONS EXPENDITURES

\$	0	\$	1,882,000	\$	0
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Source of Funds**Appropriation No.**

\$	0	\$	1,437,000	\$	0
	0		8,000		0
	0		68,000		0
	0		125,000		0
	0		164,000		0
	0		80,000		0
	0		0		0
	0		0		0
	0		0		0
<hr/>		<hr/>		<hr/>	
\$	0	\$	1,882,000	\$	0
<hr/>		<hr/>		<hr/>	

	Org	-	Ref	-	Fund
General Fund - Tax	1730		001		0001
General Fund - HRA	1730		001		0001
DMV - Motor Vehicle Acct.	1730		001		0044
DMV Lic Fee Acct	1730		001		0064
Court Ordered Debt	1730		001		0242
Reimb Program 70	1730		501		0995
(Child support)					

Totals**LOCAL ASSISTANCE****Source of Funds****Appropriation No.**

\$(0)	\$(0)	\$(0)
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\$	0	\$	0	\$	0
	0		0		0
	0		0		0
	0		0		0
	0		0		0
	0		0		0
	0		0		0
	0		0		0
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\$	0	\$	0	\$	0
<hr/>		<hr/>		<hr/>	

	Org	-	Ref	-	Fund
General Fund - Tax					
General Fund - HRA					
DMV - Motor Vehicle Acct.					
DMV Lic Fee Acct					
Court Ordered Debt					

Totals

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.